

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name City of Manistee Housing Commission	County Manistee
Audit Date 5/26/05	Opinion Date 5/26/05	Date Accountant Report Submitted to State: 8/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

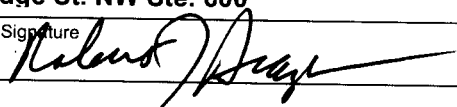
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Plante & Moran, PLLC			
Street Address 333 Bridge St. NW Ste. 600	City Grand Rapids	State MI	ZIP 49504
Accountant Signature 		Date 8-30-05	

City of Manistee Housing Commission

Contents

Report Letter	I
Management's Discussion and Analysis	2-6
Basic Financial Statements	
Statement of Net Assets	7
Statement of Revenue, Expenses, and Changes in Net Assets - Unaudited	8
Statement of Cash Flows - Unaudited	9-10
Notes to Financial Statements	11-15
Additional Information	16
Report Letter	17
Statement of Net Assets by Program	18
Statement of Revenue, Expenses, and Changes in Net Assets by Program - Unaudited	19
Statement of Cash Flows by Program - Unaudited	20-21

Independent Auditor's Report

To the Members of the City of Manistee
Housing Commission
Manistee, Michigan

We have audited the accompanying statement of net assets of the City of Manistee Housing Commission as of December 31, 2004. This financial statement is the responsibility of the City of Manistee Housing Commission's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of net assets is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of net assets. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of net assets presentation. We believe that our audit provides a reasonable basis for our opinion.

Because we were not engaged to audit the statement of revenues, expenses, and changes in net assets and the statement of cash flows, we did not extend our auditing procedures to enable us to express an opinion on the results of operations and cash flows for the year ended December 31, 2004. Accordingly, we express no opinion on them.

In our opinion, the statement of net assets referred to above presents fairly, in all material respects, the financial position of the City of Manistee Housing Commission as of December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and do not express an opinion on it.

As described in Note 5, the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2004.

Plante & Moran, PLLC

May 26, 2005

A member of



A worldwide association of independent accounting firms

City of Manistee Housing Commission

Management's Discussion and Analysis

The City of Manistee Housing Commission (CMHC or the "Commission") management's discussion and analysis (MD&A) is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of CMHC's financial activities for the year, (c) identify changes in CMHC's financial position, and (d) identify individual program issues or concerns.

CMHC offers this narrative overview of the financial activities of CMHC for the year ended December 31, 2004.

Since the MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts, please read this discussion in conjunction with CMHC's accompanying financial statements and notes.

Mission

The City of Manistee Housing Commission is a component unit of the City of Manistee, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Manistee on August 30, 1968, consisting of a five-member board appointed by the Mayor of the City of Manistee and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing.

Financial Highlights

- CMHC's total assets exceeded its liabilities by \$3,537,957 at December 31, 2004. This is an increase of \$132,889 from the previous year. The result of prior period adjustments is discussed in Major Factors Affecting the Statement of Net Assets.
- Total revenues decreased by \$154,500 (11.4 percent) and were \$1,199,542 and \$1,354,042 for fiscal years 2004 and 2003, respectively.
- Expenses increased by \$70,353 (7.1 percent) and were \$1,066,653 and \$996,300 (including depreciation) for fiscal years 2004 and 2003, respectively.

City of Manistee Housing Commission

Management's Discussion and Analysis (Continued)

The Commission's Funds

CMHC's financial statements utilize the Enterprise Funds method, on the full accrual basis of accounting. The enterprise method is similar to accounting used in the private sector. The major program maintained by CMHC is as follows:

Low Income Public Housing Program - Under this program, CMHC rents units that it owns to low-income households. This program is operated under the Annual Contributions Contract (ACC) with HUD, and HUD provides operating subsidies to enable CMHC to provide the housing at a cost that is based upon 30 percent of household income. CMHC currently owns and operates 218 units in this program.

The Commission's Financial Statements

CMHC's basic commission-wide accompanying audited financial statements are designed to be corporate-like in that all business-type activities are consolidated into columns which add to a total for the entire Commission. These financial statements include a statement of net assets (similar to a balance sheet), which is designed to represent the available assets, net of liabilities, for the entire Commission. Net assets (formerly known as equity) are reported in three broad categories: net assets invested in capital assets (net of related debt and depreciation), formerly called capital contributions; restricted net assets; and unrestricted net assets.

Our Commission-wide financial statements also include a statement of revenues, expenses, and changes in net assets (similar to an income statement). This statement includes operating revenues such as rental income, operating expenses such as administrative, utilities, and maintenance, and nonoperating revenue and expense such as capital grant revenue and investment income. The focus of this statement is the change in net assets, which is similar to net income or loss.

Finally, a statement of cash flows is included, which discloses net cash provided by or used in operating activities, capital and related financing activities, and investing activities.

The following statements are condensed versions of our financial statements, for the purpose of analysis and discussion. See the full financial statements for more details on results of operations.

City of Manistee Housing Commission

Management's Discussion and Analysis (Continued)

City of Manistee Housing Commission Statement of Net Assets Fiscal Year Ended December 31, 2004

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Fiscal Year 2004	Fiscal Year 2003 (as restated)	Change
Assets			
Current and other assets	\$ 329,741	\$ 47,631	\$ 282,110
Noncurrent assets	3,434,428	3,406,028	28,400
Total assets	3,764,169	3,453,659	310,510
Liabilities			
Current and other liabilities	164,897	19,317	145,580
Noncurrent liabilities	61,315	29,274	32,041
Total liabilities	226,212	48,591	177,621
Net Assets			
Invested in capital assets	3,434,428	3,573,745	(139,317)
Unrestricted	103,529	(168,677)	272,206
Total net assets (as restated)	<u>\$ 3,537,957</u>	<u>\$ 3,405,068</u>	<u>\$ 132,889</u>

Major Factors Affecting the Statement of Net Assets

Current assets increased by \$282,110, due largely to the increase in cash.

Total liabilities increased by \$177,621, due primarily to an adjustment for accrued compensated absences and an agreement reached with the City of Manistee for past payments in lieu of taxes, which were not kept current for the period of 1999-2004.

Net assets at the beginning of 2004 has been adjusted to correct errors made in 2003, including recording accounts receivable and revenue for fraud recovery, overstating capital assets, and overaccruing payments in lieu of taxes. Had the errors not been made, net assets for 2003 would have been decreased by \$894,355 (as shown above).

Please refer to the full financial statements for more detailed information on these accounts.

City of Manistee Housing Commission

Management's Discussion and Analysis (Continued)

City of Manistee Housing Commission Revenues and Expenses by Fund (Unaudited) Fiscal Year December 31, 2004 and 2003

The following table shows the changes in net assets during the current year:

	Fiscal Year 2004	Fiscal Year 2003	Change
Revenue			
Tenant rent	\$ 385,999	\$ 481,202	\$ (95,203)
HUD grant revenue	798,771	832,811	(34,040)
Nonoperating revenue	1,708	427	1,281
Miscellaneous	13,064	39,602	(26,538)
Total revenue	1,199,542	1,354,042	(154,500)
Expenses			
Low income public housing	795,233	772,416	22,817
Non-HUD/other business activities	271,420	223,884	47,536
Total expenses	1,066,653	996,300	70,353
Change in Net Assets	<u>\$ 132,889</u>	<u>\$ 357,742</u>	

Major Factors Affecting the Statement of Revenue and Expenses

Total revenues decreased by \$154,500. This decrease is mostly a result of high vacancy rates throughout the year, which were a combination of normal vacancy rates and those units that were intentionally kept vacant by the former executive director as part of his fraud scheme to receive extra subsidies.

Total operating expenses increased by \$70,353. This increase is mostly a result of a \$33,079 increase in depreciation expense due to capital asset additions and an \$18,985 increase in utilities. Most expenses rose as a result of normal inflationary increases.

Please refer to the full financial statements for more detailed information on these accounts.

City of Manistee Housing Commission

Management's Discussion and Analysis (Continued)

City of Manistee Housing Commission Comparison of Capital Assets at Year End - Net of Depreciation For Fiscal Years Ended December 31, 2004 and 2003

	Fiscal Year 2004	Fiscal Year 2003	Change
Land and land improvements	\$ 357,478	\$ 312,216	\$ 45,262
Buildings	4,650,792	4,570,127	80,665
Building improvements	2,489,337	2,531,204	(41,867)
Furniture and equipment	409,548	407,300	2,248
Accumulated depreciation	<u>(4,506,644)</u>	<u>(4,247,102)</u>	<u>(259,542)</u>
Subtotal	3,400,511	3,573,745	(173,234)
Construction in progress	<u>33,917</u>	<u>-</u>	<u>33,917</u>
Total	<u>\$ 3,434,428</u>	<u>\$ 3,573,745</u>	<u>\$ (139,317)</u>

During fiscal year 2004, the change in capital assets amounted to a decrease of \$194,083. The above table represents the changes in the asset accounts by category as follows:

- Land, land improvements, and buildings increased by \$125,927 as the result of renovations and general land improvements, specifically the purchases of storage sheds and landscaping.
- Building improvements decreased by \$41,867 due to the review and adjustment of the account during the year resulting from prior year overstatements.
- The accumulated depreciation increased by \$259,542. The increase is the net of current year depreciation expense of \$256,953 and the adjustment of accumulated depreciation on property during the year ended December 31, 2004.

Contacting the CMHC Management

This financial report is designed to provide a general overview of the CMHC's finances and to show the CMHC's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the CMHC's office.

City of Manistee Housing Commission

Statement of Net Assets December 31, 2004

Assets

Current Assets

Cash (Note 2)	\$ 269,499
Accounts receivable - Tenants	2,279
Accounts receivable - HUD	23,917
Prepaid expenses	34,046
Total current assets	329,741

Long-term Assets - Net (Note 3)

3,434,428

Total assets

\$ 3,764,169

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 47,090
Tenant deposits	13,004
Deferred revenue	5,332
Accrued payments in lieu of taxes	53,320
Accrued and other liabilities	46,151
Total current liabilities	164,897

Noncurrent Liabilities - Accrued payments in lieu of taxes

61,315

Total liabilities

226,212

Net Assets

Invested in capital assets	3,434,428
Unrestricted net assets	103,529
Total net assets	3,537,957

Total liabilities and net assets

\$ 3,764,169

City of Manistee Housing Commission

Statement of Revenues, Expenses, and Changes in Net Assets Year Ended December 31, 2004 (Unaudited)

Operating Revenue

Tenant rent	\$ 385,999
HUD grant revenue	472,940
Miscellaneous	<u>13,064</u>

Total operating revenue 872,003

Operating Expenses

Administration	231,607
Tenant services	8,932
Utilities	156,784
Repairs and maintenance	329,051
Taxes	22,358
Insurance	46,501
Depreciation	256,963
Miscellaneous	<u>14,457</u>

Total operating expenses 1,066,653

Operating Loss - Before nonoperating revenue (194,650)

Nonoperating Revenue

Interest	1,708
Capital grants	325,831
Operating transfers in	212,873
Operating transfers out	<u>(212,873)</u>

Change in Net Assets 132,889

Net Assets - Beginning of year (as restated - Note 7) 3,405,068

Net Assets - End of year \$ 3,537,957

City of Manistee Housing Commission

Statement of Cash Flows Year Ended December 31, 2004 (Unaudited)

Cash Flows from Operating Activities

Receipts from HUD operating subsidies and grants	\$ 774,854
Receipts from tenants	385,167
Other receipts	13,064
Payments for administrative expenses	(231,607)
Receipts for other operating items	73,159
Payments for resident and other services	(494,768)
Other payments	<u>(14,457)</u>

Net cash provided by operating activities 505,412

Cash Flows from Capital and Related Financing Activities - Acquisition of capital assets (261,076)

Cash Flows from Investing Activities - Interest received on investments 1,708

Net Increase in Cash 246,044

Cash - January 1, 2004 23,455

Cash - December 31, 2004 \$ 269,499

City of Manistee Housing Commission

Statement of Cash Flows (Continued) Year Ended December 31, 2004 (Unaudited)

Reconciliation of Operating Loss to Net Cash from Operating

Activities

Operating loss	\$ (194,650)
Capital grants	325,831
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	256,963
Changes in assets and liabilities:	
Increase in accounts receivable	(24,749)
Increase in prepaid expenses	(11,317)
Increase in accounts payable	22,803
Increase in tenant deposits	4,514
Increase in deferred revenue	1,912
Increase in accrued and other liabilities	<u>124,105</u>
Net cash provided by operating activities	<u>\$ 505,412</u>

Noncash Operating Activities - Other assets - Fraud recovery decreased by \$696,159 during the year ended December 31, 2004.

Noncash Investing, Capital, and Financing Activities - There were no noncash investing, capital, and financing activities during the year ended December 31, 2004.

City of Manistee Housing Commission

**Notes to Financial Statements
December 31, 2004**

Note 1 - Significant Accounting Policies

The financial statements of the City of Manistee Housing Commission (the "Housing Commission") pertain to the financial activities of the Housing Commission as a component unit of the City of Manistee, Michigan.

Reporting Entity - The Housing Commission is a Public Housing Agency created by the City of Manistee on August 30, 1968, consisting of a five-member board appointed by the Mayor of the City of Manistee and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing.

Grants and Other Intergovernmental Revenues - The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3077, the Commission constructed, maintains, and operates 218 units of subsidized housing in the City of Manistee, Michigan.

Basis of Accounting - The financial statements of the Housing Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Commission follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions, and accounting research bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Housing Commission's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The Housing Commission uses Enterprise Funds to maintain its financial records on an accrual basis. Under the accrual basis of accounting, revenues are recorded when earned, regardless of when received, and expenses are recorded when incurred, regardless of when paid.

The Housing Commission considers all revenue and expenses to be operating, as required by HUD, except for capital funding, which is considered nonoperating income, as required by HUD.

City of Manistee Housing Commission

Notes to Financial Statements
December 31, 2004

Note 1 - Significant Accounting Policies (Continued)

Accounts Receivable - All receivables are reported at their net value, reflected where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Capital Assets - Capital assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life ranging from 5 to 40 years. Capital assets are defined by the Housing Commission as assets with an initial individual cost of more than \$300 and an estimated useful life in excess of one year.

Property Taxes - The Housing Commission is a participant in a tax abatement program providing for payments in lieu of property taxes (PILOT). The payments are computed at 9.75 percent of rental income less utilities expense. In 2004, the Housing Commission reached an agreement with the City of Manistee to pay for several years' worth of PILOT payments that had not been made. The payments are to be made over a period of 36 months, resulting in a current and noncurrent liability.

Note 2 - Deposits

The Housing Commission's deposits at December 31, 2004 are included on the balance sheet as cash in the amount of \$269,499.

The above number is classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 268,999
Investments in securities, mutual funds, and similar vehicles	-
Petty cash	<u>500</u>
Total	<u>\$ 269,499</u>

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$280,211, of which \$100,000 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized.

The Housing Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Manistee Housing Commission

Notes to Financial Statements December 31, 2004

Note 2 - Deposits (Continued)

The Housing Commission's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the Housing Commission or its safekeeping agent in the Housing Commission's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the Housing Commission's name. Category 3 includes uninsured and uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Housing Commission's name. At December 31, 2004, the Housing Commission had \$100,000 in Category 1 and the remaining \$169,499 was in Category 3.

Note 3 - Capital Assets

Capital assets as of December 31, 2004 include the following:

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
Land and land improvements	\$ 312,216	\$ 45,262	\$ -	\$ 357,478
Buildings	4,610,427	40,365	-	4,650,792
Building improvements	2,545,670	108,446	(164,779)	2,489,337
Furniture and equipment	407,300	1,748	500	409,548
Construction in progress	-	33,917	-	33,917
Total	7,875,613	229,738	(164,279)	7,941,072
Less accumulated depreciation	4,247,102	256,963	2,579	4,506,644
Net carrying amount	\$ 3,628,511	\$ (27,225)	\$ (166,858)	\$ 3,434,428

Current year additions are net of transfers and prior period adjustments in the amount of \$31,338. Depreciation expense was \$256,963 for the year ended December 31, 2004.

Note 4 - Risk Management

The Housing Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Housing Commission has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

City of Manistee Housing Commission

Notes to Financial Statements
December 31, 2004

Note 5 - Accounting and Reporting Change

GASB No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Housing Commission has applied the provisions of this statement in the accompanying financial statements (including notes to financial statements). Certain significant changes in the statement include a management's discussion and analysis (MD&A) section providing an analysis of the Housing Commission's overall financial position and results of operations and the classification of restricted assets.

Note 6 - Retirement Plan

The Housing Commission participates in a defined benefit pension plan, the City of Manistee Employees Retirement System. The pension covers all eligible full-time employees (age 55 with 30 years of credited service or age 60 with 10 years of credited service) and requires a minimum contribution by the employees. The Housing Commission's normal cost contribution was computed to be 5.16 percent of member payroll for the fiscal year beginning July 1, 2004. The excess of accrued assets over accrued liabilities was amortized over 10 years as a level percent of payroll and applied as a temporary credit to the computed normal cost. The amortization credit was 7.55 percent of the Housing Commission member payroll for the fiscal year beginning July 1, 2004. Therefore, the Housing Commission's net contribution was 0.00 percent of member payroll for the fiscal year beginning July 1, 2004. Valuation payroll for the Housing Commission was \$137,692 and employee contributions were \$8,574 for the period July 1, 2003 to June 30, 2004. At June 30, 2004, the date of the last completed actuarial evaluation, the Housing Commission's termination liability for retirement benefits was \$317,105 (employer and employee combined). Valuation assets available to meet this obligation were \$413,957. The Housing Commission did not have to make monthly contributions during 2004. There are four active employees and one retiree and/or beneficiary. There is an overfunded actuarial accrued liability balance of \$96,852 as of June 30, 2004. Statistical information concerning the plan can be obtained from the City of Manistee, which is contained in their annual actuarial valuation of the City of Manistee Employees Retirement System.

Housing Commission employees who retire under the pension plan will have the option of maintaining Blue Cross/Blue Shield for themselves and their dependents, the group premium for which will be paid by the employee or spouse upon receipt of an invoice for the same. There shall be no cost to the employer. Employees not covered under the pension plan shall have the same option.

City of Manistee Housing Commission

**Notes to Financial Statements
December 31, 2004**

Note 7 - Prior Period Adjustment

Net assets at the beginning of 2004 has been adjusted to correct errors made in 2003, including recording accounts receivable and revenue for fraud recovery, overstating capital assets, and overaccruing payments in lieu of taxes. Had the errors not been made, net assets for 2003 would have been decreased by \$894,355.

Additional Information



Plante & Moran, PLLC

Bridgewater Place
Suite 600
333 Bridge St. N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

To the Members of the City of Manistee
Housing Commission
Manistee, Michigan

We have audited the statement of net assets of the City of Manistee Housing Commission for the year ended December 31, 2004. Our audit was conducted for the purpose of forming an opinion on this financial statement. The information on pages 18 through 21 is presented for the purpose of additional analysis and is not a required part of the basic financial statement. Such information has been subjected to procedures applied in the audit of the statement of net assets and, in our opinion, is fairly stated in all material respects in relation to the statement of net assets. Because we were not engaged to audit the statement of revenue, expenses, and changes in net assets and the statement of cash flows, we did not extend our auditing procedures to enable us to express an opinion on results of operations and cash flows, and, accordingly, we express no opinion on these program statements.

Plante & Moran, PLLC

May 26, 2005

A member of



A worldwide association of independent accounting firms

City of Manistee Housing Commission

Statement of Net Assets by Program December 31, 2004

	C-3077 Low Rent Program 14.850	Capital Fund Program 14.872	Totals
Assets			
Current Assets			
Cash	\$ 269,499	\$ -	\$ 269,499
Accounts receivable - Tenants	2,279	-	2,279
Accounts receivable - HUD	23,917	-	23,917
Prepaid expenses	34,046	-	34,046
Total current assets	329,741	-	329,741
Long-term Assets - Net	3,246,808	187,620	3,434,428
Total assets	\$ 3,576,549	\$ 187,620	\$ 3,764,169
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 47,090	\$ -	\$ 47,090
Tenant deposits	13,004	-	13,004
Deferred revenue	5,332	-	5,332
Accrued payments in lieu of taxes	53,320	-	53,320
Accrued and other liabilities	46,151	-	46,151
Total current liabilities	164,897	-	164,897
Noncurrent liabilities - Accrued payments in lieu of taxes	61,315	-	61,315
Total liabilities	226,212	-	226,212
Net Assets			
Invested in capital assets	3,246,808	187,620	3,434,428
Unrestricted net assets	103,529	-	103,529
Total net assets	3,350,337	187,620	3,537,957
Total liabilities and net assets	\$ 3,576,549	\$ 187,620	\$ 3,764,169

City of Manistee Housing Commission

Statement of Revenue, Expenses, and Changes in Net Assets by Program Year Ended December 31, 2004 (Unaudited)

	C-3077 Low Rent Program 14.850	Capital Fund Program 14.872	Totals
Operating Revenue			
Tenant rent	\$ 385,999	\$ -	\$ 385,999
HUD grant revenue	466,910	6,030	472,940
Miscellaneous	13,064	-	13,064
Total operating revenue	865,973	6,030	872,003
Operating Expenses			
Administration	229,942	1,665	231,607
Tenant services	8,932	-	8,932
Utilities	156,784	-	156,784
Repairs and maintenance	324,686	4,365	329,051
Taxes	22,358	-	22,358
Insurance	46,501	-	46,501
Depreciation	240,274	16,689	256,963
Miscellaneous	14,457	-	14,457
Total operating expenses	1,043,934	22,719	1,066,653
Operating Loss - Before nonoperating revenue	(177,961)	(16,689)	(194,650)
Nonoperating Revenue (Expenses)			
Interest	1,708	-	1,708
Capital grants	-	325,831	325,831
Operating transfers in (out)	212,873	(212,873)	-
Change in Net Assets	36,620	96,269	132,889
Net Assets - Beginning of year (as restated)	3,313,717	91,351	3,405,068
Net Assets - End of year	<u>\$ 3,350,337</u>	<u>\$ 187,620</u>	<u>\$ 3,537,957</u>

City of Manistee Housing Commission

Statement of Cash Flows by Program Year Ended December 31, 2004 (Unaudited)

	C-3077 Low Rent Program 14.850	Capital Fund Program 14.872	Totals
Cash Flows from Operating Activities			
Receipts from HUD operating subsidies and grants	\$ 442,993	\$ 331,861	\$ 774,854
Receipts from tenants	385,167	-	385,167
Other receipts	13,064	-	13,064
Payments for administrative expenses	(229,942)	(1,665)	(231,607)
Receipts for other operating items	73,159	-	73,159
Payments for resident and other services	(490,403)	(4,365)	(494,768)
Other payments	(14,457)	-	(14,457)
Net cash provided by operating activities	179,581	325,831	505,412
Cash Flows from Noncapital and Related Financing Activities - Operating transfers in (out)	212,873	(212,873)	-
Cash Flows from Capital and Related Financing Activities - Acquisition of capital assets	(148,118)	(112,958)	(261,076)
Cash Flows from Investing Activities - Interest received on investments	1,708	-	1,708
Net Increase in Cash	246,044	-	246,044
Cash - January 1, 2004	23,455	-	23,455
Cash - December 31, 2004	<u>\$ 269,499</u>	<u>\$ -</u>	<u>\$ 269,499</u>

City of Manistee Housing Commission

Statement of Cash Flows by Program (Continued) Year Ended December 31, 2004 (Unaudited)

	C-3077 Low Rent Program 14.850	Capital Fund Program 14.872	Totals
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (177,961)	\$ (16,689)	\$ (194,650)
Capital grants	-	325,831	325,831
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	240,274	16,689	256,963
Changes in assets and liabilities:			
Increase in accounts receivable	(24,749)	-	(24,749)
Increase in prepaid expenses	(11,317)	-	(11,317)
Increase in accounts payable	22,803	-	22,803
Increase in tenant deposits	4,514	-	4,514
Increase in deferred revenue	1,912	-	1,912
Increase in accrued and other liabilities	124,105	-	124,105
Net cash provided by operating activities	<u>\$ 179,581</u>	<u>\$ 325,831</u>	<u>\$ 505,412</u>

Noncash Operating Activities - Other assets - Fraud recovery decreased by \$658,083 and \$38,076 in the Low Rent Program and Capital Fund Program, respectively, during the year ended December 31, 2004.

Noncash Investing, Capital, and Financing Activities - There were no noncash investing, capital, and financing activities during the year ended December 31, 2004.

August 19, 2005

Board of Commissioners
City of Manistee Housing Commission
237 Sixth Avenue
Manistee, MI 49660

Dear Commissioners:

We have recently completed our audit of the balance sheet of the City of Manistee Housing Commission as of December 31, 2004, and for the year then ended. We offer the following items of an informational nature for your consideration, outside of the forensic accounting report, which was sent under separate cover on August 1, 2005:

New Reporting Model

As you were made aware in previous years, the Governmental Accounting Standards Board (GASB) has issued a new financial reporting model for governmental entities. This new reporting model was designed to provide improved comparability between governmental entities and a more balanced perspective between current and long-term financial resources. To comply with the provisions of this new reporting model, you will see a few changes to your financial statements as compared to prior years. The most noticeable of these changes is that the financial statements no longer use the terminology "net income" and "equity". "Net assets" replaces these terms. Other notable changes include significant revision of most financial statement disclosures and a new summary letter referred to as "Management's Discussion and Analysis."

Interest Earnings

At year-end, the Commission had cash of approximately \$270,000. During the year, interest earnings for the Commission totaled only approximately \$1,700. As the Commission continues the recovery process from the embezzlement addressed in the forensic accounting report mentioned above and if the Commission continues to have significant cash balances, we recommend that you review the nature of the cash accounts and consider other investment alternatives allowable under governmental standards that could provide increased rates of return.

Internal Controls and Operating Issues

- The Executive Director mentioned that one of his staff tends to get frustrated easily. Consider reevaluating staffing needs and perhaps hiring another office staff to help spread the workload and to further segregate duties.
- Bank reconciliations are prepared by the fee accountants. Consider preparing bank reconciliations monthly at the main office. This would help to identify reconciling differences in a timely matter.

A member of



A worldwide association of independent accounting firms

August 19, 2005

Internal Controls and Operating Issues – (continued)

- At the time of fieldwork, there was no inventory tracking process in place. The Executive Director planned to instill a process that would track purchases, work orders, quantities, etc.
- The employees' timeclock is downstairs in the basement and cannot be adequately monitored. Consider moving the timeclock to a more visible location, perhaps into the main office.

We wish to thank Mr. McKinven-Copus and all of his staff for the excellent assistance provided to us during the audit. As always, we are pleased to discuss these comments, information presented in the financial statements, including any questions in interpreting the new statements, or any other matters with you at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Robert J. Brazda